

**STATEMENT OF THE HONORABLE DANNY K. DAVIS  
AT THE SUBCOMMITTEE ON FEDERAL WORKFORCE  
AND AGENCY ORGANIZATION  
HEARING ON**

**REAL ESTATE INVESTMENT TRUSTS (REITS): CONSIDERING  
THE VIEWS AND ADVISORY ROLE OF THE EMPLOYEE THRIFT ADVISORY COUNCIL**

**April 26, 2006**

Chairman Porter, thank for agreeing to hold this second hearing on the possible addition of a real estate investment (REIT) fund to the Thrift Savings Plan (TSP). As you know, last month, the Democratic members of the Subcommittee requested that such a hearing be held to discuss the merits of adding a REIT fund to the TSP and to hear the views of the Employee Thrift Advisory Council (ETAC). While I am pleased that this hearing is being held, I am very disappointed that only one of our witnesses, ETAC Chairman Jim Sauber, was invited to testify and that the scope of the hearing seems to center more on ETAC and the Thrift Board's decision-making process, rather than on why ETAC took the extraordinary step of passing a resolution in opposition to H.R. 1578, the "Real Estate Investment Thrift Savings Act."

To ensure that the members of the Thrift Board remain aware of the interests and concerns of the Thrift Plan participants and beneficiaries, ETAC was created in the TSP's authorizing legislation. ETAC represents over 2.6 million federal employees and retirees, and several ETAC representatives have served on ETAC since the TSP's inception in 1986.

When a bill is *opposed* by the people it is supposed to benefit, this Subcommittee has an obligation to research the issue further. Therefore, to gain a more comprehensive understanding of this issue, I request that the written statements of Terrence Duffy, Chairman of the Board of the Chicago Mercantile and House nominee to the TSP Board; Frank Cavanaugh, the first Executive Director and CEO of the Board; and Mike Miles, an independent Certified Financial Planner licensee and registered Employee Benefits Consultant be submitted for the record.

Given the scope of the hearing and the markup to follow, the key questions that need to be addressed now are: **"Why REITs?"** and **"Why Now?"** Why isn't the Subcommittee considering Emerging Market Bonds or Treasury Inflated Protected Securities or Emerging Market Stocks? And why is the Subcommittee moving forward before a comprehensive study of the universe of options can be completed? A study of investment choices will include an examination of the costs to participants, costs to the TSP, the scale at which the TSP would be able to enter the market without paying a premium, participant demand, overlapping funds, and whether or not any of those choices complement the existing investment options. This is important information, for not only us, but for the Board and ETAC to know and understand, as we make decisions that will impact federal employees' retirement savings.

I am also concerned about a pattern of investor behavior known as "chasing returns." I understand that this occurs when individuals over-concentrate investments in securities that perform well just prior to their investing in them. These investors run the risk of purchasing stocks that may be overvalued and are due for a correction. It is important to understand how "chasing returns" fits in to the investment equation for federal employees.

Experts estimate that retirees will need about 70% of their pre-retirement income – 90% or more for lower income earners – to maintain their pre-retirement standard of living. That makes the consideration of a fund a very serious matter. One only has to look at the example of Enron, whose employees were allowed and encouraged by company executives to invest in Enron stock, to see what can happen when retirement programs are not administered solely in the interests of plan participants.

The TSP has an exemplary record, let's continue that tradition. I look forward to hearing from today's witnesses.

Thank you.

